

## Message Text

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ACTION ARA-10

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TAGS: ECON, CI

SUBJ: GOC MOVES TO HELP THOSE MOST SERIOUSLY AFFECTED BY AUSTERITY

1. SUMMARY: IN APPARENT RESPONSE TO CRITICISM THAT ECONOMIC POLICIES ARE LEADING TO SEVERE HARDSHIP FOR LOWEST CLASSES, GOC NOW MOVING ON THREE FRONTS TO ALLEVIATE PROBLEM: USE OF WAGE READJUSTMENT MECHANISM TO BENEFIT LOWEST INCOME GROUP; IMPLEMENTATION OF GOVERNMENT WORK PROGRAM. IT IS NOT YET CLEAR WHAT BUDGETARY AND INFLATION IMPACT THESE PROGRAMS WILL HAVE OR HOW MUCH THEY WILL BENEFIT THE POOR. END SUMMARY.

2. GOC AUSTERITY PROGRAM HAS FOR SOME TIME GIVEN RISE TO COMPLAINTS (IN AND OUTSIDE OF GOVERNMENT) THAT LOWEST INCOME GROUP, WHICH CAN ILL AFFORD ANY REDUCTION IN REAL INCOME, IS BEING FORCED TO MAKE GREATEST SACRIFICES. PRESIDENT PINOCHET, OTHER KEY GOC LEADERS, AND MANY MILITARY OFFICERS ARE KNOWN TO BE DEEPLY CONCERNED OVER PROBLEM. PUBLIC COMMENTARY HAS BEEN UNUSUALLY SHARP FOR MEDIA OPERATING UNDER SELF-CENSORSHIP. UNTIL RECENTLY THE CIVILIAN ECONOMIC ADVISORS HAD SUCCESSFULLY OPPOSED VARIOUS PROPOSALS TO RAISE REAL INCOME OF THE POOR ON LIMITED OFFICIAL USE

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GROUND THAT LARGE ADDITIONAL GOVERNMENT EXPENDITURES AND

DEFICITS WOULD RESULT AND BE QUICKLY TRANSLATED INTO ADDITIONAL INFLATION.

3. WE NOW SEE SEVERAL INDICATIONS THAT GOC IS MOVING TO DIRECT MORE RESOURCES TOWARD LOWER INCOME GROUP. IN MARCH 13 SPEECH PRESIDENT PINOCHET STATED THAT WHILE BASIC ECONOMIC POLICY WOULD NOT BE CHANGED THERE WOULD BE SOME VARIATIONS MADE TO FAVOR THOSE WITH LESS INCOME. SHORTLY BEFORE, MINISTER OF ECONOMY LENIZ TOLD EMBOFF THAT GOC WILL BE USING WAGE READJUSTMENT POLICIES AS REDISTRIBUTION MECHANISM. ON MARCH 19 LENIZ ANNOUNCED THAT PUBLIC SECTOR WORKERS RECEIVING E 159,800 OR LESS PER MONTH AND PRIVATE SECTOR WORKERS EARNING E 150,000 OR LESS PER MONTH WOULD RECEIVE E20,000 MONTH INCREASE. PENSIONERS WILL RECEIVE 20 PERCENT INCREASE OVER THE MINIMUM PENSION LEVEL OR INCREASE OF E 9,300 PER MINIMUM LEVEL PENSIONER.

4. ON MARCH 15 GOC ANNOUNCED A 3 25 BILLION PROGRAM TO ENABLE LOCAL MUNICIPALITIES TO HIRE WORKERS FOR "LEAF-RAKING" JOBS AT MINIMUM WAGE OF E 84,000 PER MONTH (\$22.70 AT PRESENT EXCHANGE RATE). EMPLOYMENT IS FOR 90 DAYS AFTER WHICH OPPORTUNITY PASSES TO OTHER UNEMPLOYED WORKERS, BUT CAN BE RESUMED FOR ADDITIONAL PERIOD AFTER 90-DAY WAIT. NINETY PERCENT OF FUNDS APPROPRIATED MUST BE USED TO PAY FOR LABOR. REMAINDER CAN BE SPENT FOR PURCHASES OF HAND TOOLS. PROGRAM WAS INITIATED VERY RAPIDLY; UNEMPLOYED BEGAN SIGNING UP MARCH 19. REQUIREMENTS FOR PARTICIPATION ARE THAT APPLICANT (A) BE HEAD OF HOUSEHOLD, (B) LIVE IN COMMUNITY WHERE HIRED, AND (C) BE UNEMPLOYED.

5. LENIZ ALSO TOLD EMBOFF THAT GOC WILL INITIATE DIRECT FEEDING OF POOREST WOMEN, CHILDREN AND AGED AS WINTER MONTHS APPROACH. WE HAVE NO DETAILS, HOWEVER, ON SCOPE OR COST OF PROGRAM.

6. COMMENT: WORK PROGRAM OF E25 BILLION WILL RAISE PROGRAMMED CENTRAL GOVERNMENT BUDGET DEFICIT FROM 11.09 TO 11.51 PERCENT OF ESCUDO EXPENDITURES. AT STIPULATED RATES OF EXPENDITURES, THE E25 BILLION BUDGETED WILL FUUND PROGRAM THROUGH END OF OCTOBER. IMPACT ON GROWTH OF MONEY SUPPLY WILL BE GREATEST DURING MONTH OF MARCH: AUTHORIZED EXPENDITURES FOR LIMITED OFFICIAL USE

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PROGRAM THAT MONTH REPRESENT 0.24 PERCENT INCREASE IN MONEY SUPPLY OVER LEVEL EXISTING FEBRUARY 28, 1975, ASSUMING TOTAL PROGRAM IS FINANCED THROUGH MONETARY EMISSION. THIS HAS NEGLIGIBLE IMPLICATIONS FOR CHILE'S INFLATION RATE.

7. IF TOTAL AMOUNT ALLOCATED FOR PROGRAM WERE SPENT ON LABOR, NUMBERS HIRED DURING MARCH AND APRIL WOULD BE 35,800. HIGHER FUNDING FOR MAY AND JULY BRINGS NUMBER EMPLOYED TO 47,600

INCREASING TO 59,500 DURING JUNE PEAK WINTER MONTH. PROGRAM FUNDING LEVELS ASSUME NO COST OF LIVING INCREASE WILL BE GRANTED, WHICH PROBABLY WILL NOT BE ACTUAL CASE.

8. ADDITIONAL £ 20,000 IN WAGES FOR LOWER PAID PUBLIC AND PRIVATE SECTOR EMPLOYEES WILL INCREASE BASE WAGE BY ABOUT 33 PERCENT FOR THOSE EARNING THE MINIMUM. ASSUMING ABOUT ONE-THIRD OF 353,000 PUBLIC SECTOR EMPLOYEES AUTHORIZED IN 1975 BUDGET WOULD BE ELIGIBLE FOR £ 20,000 INCREASE, COST TO GOC PER MONTH WOULD BE £ 2.4 BILLION. PENSION INCREASE WILL AMOUNT TO ABOUT £ 2.8 BILLION PER MONTH. EXPENDITURE INCREASES OF THIS MAGNITUDE WOULD NOT HAVE SIGNIFICANT IMPACT ON NORMAL LEVEL INCREASE IN MONEY SUPPLY, AGAIN ASSUMING INCREASE IS TOTALLY FINANCED THROUGH MONETARY EMISSION. INFLATIONARY IMPACT SHOULD THEREFORE NOT BE VERY GREAT.

9. FEEDING PROGRAM IS POTENTIALLY MOST EXPENSIVE OF ALL. IT IS ALSO MOST DRAMATIC SHORT-TERM GESTURE.

10. BY COMBINING THREE MEASURES DESCRIBED ABOVE WITH ALREADY EXISTING UNEMPLOYMENT INSURE PROGRAM, GOC MAY REDUCE IMPACT OF CURRENT AUSTERITY CONDITIONS ON THOSE MOST SERIOUSLY AFFECTED. THERE IS NO REAL WAY TO DO THIS MEANINGFULLY, HOWEVER, WITHOUT PAYING PRICE OF ADDITIONAL INFLATION. DEGREE OF INFLATION CANNOT YET BE FULLY DETERMINED IN ABSENCE OF MORE INFORMATION REGARDING PUBLIC FEEDING PROGRAM, BUT MEASURES THUS FAR SPELLED OUT DO NOT APPEAR UNDULY EXPENSIVE. BY SAME TOKEN, THEY MAY NOT PROVIDE MUCH RELIEF TO POOR. AT VERY LEAST, GOC WILL RECEIVE SOME PUBLIC RELATIONS BENEFIT FROM ACTION TAKEN TO ALLEVIATE SERIOUS SOCIAL PROBLEM WITH POTENTIAL POLITICAL IMPLICATIONS.  
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